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# Report of the Permitted Interaction Group to Investigate the Establishment of a Transient Accommodations Tax in Connection with the Estimate at Completion Costs of the Honolulu Rail Transit Project

November 24, 2021

## Formation of the Group

Pursuant to Section 92-2.5(b) of the Hawaii Revised Statutes, on September 24, 2021, at a duly noticed meeting of the Board of Directors, the Board established a permitted interaction group (Group) consisting of Dean Hazama, Anthony Aalto, Kika Bukoski, Colleen Hanabusa, and J. Roger Morton.

The purpose of the Group was to investigate the establishment of a countywide transient accommodations tax (TAT) in the context of the most recent revised estimates to complete the Honolulu Rail Transit Project (Rail).

The Group met six times: on October 5, 2021, October 19, 2021, November 4, 2021, November 15, 2021, November 19, 2021, and November 23, 2021. Resource persons who assisted the Group included Mayor Rick Blangiardi and Managing Director Michael Formby at its October 5, 2021 meeting, as well as HART Interim Executive Director Lori Kahikina, Deputy Executive Director and Chief Operating Officer Rick Keene who joined the Group for its October 19, 2021, November 4, 2021 and November 15, 2021 meetings. The Director of Construction Nate Meddings also assisted during the November meetings.

The Group recognizes the assistance of the HART Staff, its Executive Director, Deputy Executive Director and Director of Construction, all of whom dedicated many hours and without whose help it would have been impossible to complete the report in time.

## Summary

The rail project currently faces a significant funding shortfall. The most recent in-house estimate released by the HART management team in March of this year, pegged the total gap at \$3.5 billion. This was not a number formally adopted by the Board, but we have used it as a useful guideline in our considerations about how to complete the project.

Since those March estimates were released, a series of developments that we explore below have helped reduce the anticipated shortfall to less than \$2 billion.

This is great news and represents a huge savings. Nevertheless a huge gap still remains.

It is in the context of this gap that the Board asked the Group to determine whether it makes sense to seek a portion of the county's proposed new TAT revenues.

The Group determined that requesting TAT funding from the Honolulu City Council (Council) only makes sense in the context of other measures which, combined, would allow us to complete the rail project. We cannot ask the public for more funding if they perceive that the money would only help extend the system another mile or two.

This rationale compelled us to additionally examine measures over which neither the Group nor the Board have any authority. However it is the Council that must make the final decision on the TAT, and the Council does have authority to consider other measures.

Our conclusion is that a dedicated portion of the TAT, in combination with other measures that we name, will permit us to deliver a rail system that is functional and makes sense.

### **Council Budget Committee Decision of November 17, 2021**

As stated above, this Group was formed to investigate and present for consideration to the Council what portion of the 3% TAT could be dedicated to Rail. The Budget Committee has passed and will recommend to the full Council that it adopt the following: for the first two years, HART's share to be 1% or one third of the 3% TAT; and 1.5% or half of the 3% TAT thereafter.

The Group supports the decision of the Budget Committee and asks that the full Council adopt its recommendation.

### **Numbers**

Notwithstanding its support of the Budget Committee's proposal, the Group believes it is necessary to share what it has learned in this process.

It has been extremely frustrating to the Board, no less than the public at large, that baseline numbers have changed so much over the years. We note that in recent years public infrastructure projects nationwide have had a terrible record of cost overruns. The "Big Dig" in Boston, originally estimated at \$2.8 billion will have cost about \$22 billion by the time they finish paying off their bonds in 2038. Our own H3 freeway, first estimated at \$250 million, eventually cost \$1.3 billion. This is not an excuse, but it is a reality.

There are many possible reasons for cost overruns: significant delays due to lawsuits, rising costs of materials, the pandemic, overly-optimistic cost projections, unanticipated utility relocation costs and operational variables, and leadership decisions.

Both the Board and the HART management team are committed to do everything possible to avoid these issues going forward. We are working extremely hard to ensure that the remainder of the Project is completed smoothly and cost-effectively. The record of the past year has been encouraging.

Allied to this, 63 percent of the project is now complete. Once the punch list for the airport segment is checked-off, that number will soon jump to 75 percent. Only the last four miles of the 21 miles of guideway remain to be completed along with Pearl Highlands Parking Garage. In hind-sight, some of the decisions made by HART may arguably have been done differently, but they were lessons learned that have resulted in knowledge gained. Although the last section through town will be the most complex, we believe HART has the expertise, expertise and competence to complete this section of the Project successfully. Meanwhile, set against the unforeseen, we still have an enormous contingency fund of more than \$1.3 billion - of which nearly a quarter of a billion dollars is "unallocated contingency" - essentially a

'break-the-glass-in-case-of-emergency' fund. We hope to be able to use those unallocated funds to pay down debt by the end of the project.

## The Current Situation

The revised estimates at completion (EAC), which were released in March 2021, have been put to the test by Triunity Inc., an engineering and construction management consultancy approved by the Federal Transportation Administration to produce a validation report. Triunity went through HART's numbers and determined that the March estimates could be reduced to the tune of \$749 million.

It is important to note that the Triunity reports will not address financing or a funding forecast. Their numbers are from the HART staff. The Group contends that in any effort to properly assess a project, especially the largest capital improvement project in the history of the State of Hawai'i, we must know the costs and the revenue to do a proper analysis.

For these reasons, the Group points to the following which require greater scrutiny:

- 1) What is meant by a "validation" report by Triunity. There is a need to better understand what comprises the Triunity numbers.
- 2) How does Triunity assess the "mauka shift." Their draft findings do not include an additional estimated \$150 million in savings from the so-called mauka shift along Dillingham Boulevard, which we expect to see confirmed in Triunity's final report.
- 3) The projected reduction in the overall cost of construction leads to a reduced need to borrow, which means less interest to pay, which in turn means lower overall financing costs. In analyzing those numbers, can we now calculate those savings to be at least \$240 million over the life of the project?
- 4) Since the March report, the impact of the pandemic has receded and the visitor industry has rebounded much faster than anticipated. This has resulted in boosting HART's anticipated revenues from the general excise tax (GET) by \$539 million over the March 2021 estimate, just through the end of October. We anticipate that number will rise still further.
- 5) Assuming Council enacts what the Budget Committee recommended, the 3% TAT revenue source is estimated for FY23 to FY31 to be approximately \$440 million.
- 6) In addition, at the end of the project, HART may not expend the unallocated contingency. This amount is currently at \$222 million, and may increase by 2031.

It is important to understand what happens to allocated contingency funds that are not required to complete a contract. The overall Project is split into many smaller contracts, each of which is required to have a contingency reserve. As each contract is completed, any allocated reserve left unspent is deposited into the unallocated contingency fund. We have good grounds to believe that several contracts will be closed without expending all their allocated contingency. Since there is such a substantial amount held in contingency and since this project is almost 75% complete, it is reasonable to expect that the unallocated contingency number may increase by 2031.

We remain optimistic that for the reasons mentioned above, we will be able to significantly advance the project, if the visitor industry and economy at large continue to rebound as they are at the moment. It is not unrealistic to think the funding gap may close without further major adjustments.

## Future Action

The Group has explored the possibility that future development opportunities may exist along the corridor. In addition, various cost-saving delivery methodologies continue to be explored.

## Conclusion

For the reasons set forth above, the duly constituted Permitted Interaction Group of the Honolulu Authority for Rapid Transportation respectfully submits its Report for the HART Board's consideration and request permission to transmit it by proper Resolution to the City Council of the City and County of Honolulu supporting the decision of the Budget Committee and asking that the full Council adopt its recommendation. The Group acknowledges the work of the members of the PIG and the HART Staff.

The Group believes its collective knowledge in working on this investigation over this short period of time has resulted with each and every one of us having a greater appreciation for the costs and revenue of this Project. The Group asks the Chair's consideration in reconstituting a PIG to carry forward the knowledge gained to work on the Recovery Plan which will also require the Board's and Council's approval.

Respectfully submitted by:

Dean Hazama, Chair  
Anthony Aalto  
Kika Bukoski  
Colleen Hanabusa  
J. Roger Morton